

**Achievement of Market-Friendly Initiatives and Results Program  
(AMIR 2.0 Program)**

**Funded By U.S. Agency for International Development**

**Jordan's Privatization Program  
Background to a Privatization Bond  
And Privatization Bond Details**

Final Report

**Deliverable for Capital Markets Component, Task No. 641.1  
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# **Jordan's Privatization Program**

## ***Background to a Privatization Bond & Privatization Bond Details***

**Presentation to  
H.E. Dr. Michel Marto  
Minister of Finance**

***AMIR & the Executive Privatization Commission  
4 March 2002 – Amman, Jordan***

# Privatization History

## ***Brief Background***

Since 1996, the GoJ accomplished:

- ❑ 51 privatizations; proceeds over \$900 million; other benefits
- ❑ Legal changes and financial market reforms
- ❑ Liberalization of subsidies, price regulations, and monetary, fiscal & trade policies
- ❑ Multiple globalization advancements

***More improvements continue to happen***

# Privatization Process

## *Jordan Follows International Best Practice*

- ❑ Candidate selection
- ❑ Key constraints/opportunities analysis
- ❑ Financial Advisor
- ❑ Structure sale/lease/management contract/BOT
- ❑ Maximize competition
- ❑ Negotiations

***Balance benefits with speed***

# Privatization Process (continued)

## ***Benefit Maximization***

### ❑ Short-Term

- Intelligent packaging
- Multiple competitors

### ❑ Long-Term

- Market-driven pricing
- Transparency/fairness
- Consistency
- Professionalism

***A professional approach ⇒ ⇒  
a reputation for quality ⇒ ⇒ best results***

# **Privatization Process** (continued)

## ***Opportunities to Improve – Lessons Learned***

***Speed*** – How to quicken process, *without sacrificing Jordan's objectives and interests*

- ❑ Lender approvals
- ❑ Parallel approach
- ❑ Standardization
- ❑ Other funding sources

***Speed with quality is critical***



# **Privatization Process** (continued)

## ***Privatization speed is a double-edged sword***

### **Positive Benefits**

- Earlier receipt of proceeds
- Less money spent on preparation

### **Negative Aspects**

- Less analysis time
- Less time for packaging/marketing
- Increased buyer risk
- Risk of tarnishing Jordan's reputation
- Potential transparency loss
- Poorer negotiation position
- Fewer bidders
- Less attractive bid prices

***Potential solution may be privatization bonds***

# Privatizations – Near-Term Summary

## Anticipated Privatizations Jan. 02 – Jun. 03:

	Jan 02	Feb 02	Mar 02	Apr 02	May 02	Jun 02	3 <sup>rd</sup> Q 02	4 <sup>th</sup> Q 02	1 <sup>st</sup> Q 03	2 <sup>nd</sup> Q 03
Jordan Phosphate Mining Co.										
Arab Potash Co.										
Postal Sector										
Jordan Silos & General Supply Co.										
Electricity Sector										
Customs Department Warehouses										
Jordan Telecom										
Jordan Cement										
Royal Jordan Air Academy										
Royal Jordanian Training Center										

# **Privatizations — Future Candidates**

## ***Possible Future Candidates:***

- ❑ Royal Jordanian Airlines/Aviation
- ❑ Jordan Airmotive Ltd.
- ❑ Aircraft Maintenance Center
- ❑ Aqaba Ports
- ❑ Airports
- ❑ Up to 10 JIC companies
- ❑ Other GoJ services (e.g., health, education)

***Limited details are available on these***

# Privatizations – Summary

## ***Jordan's Privatization Program:***

- ❑ At least 22 entities with privatization activities in 2002
- ❑ An additional 15 or more in the future

***Jordan has one of the most active  
privatization programs in the world***

# Privatization Bonds

## *Possible Privatization Option*

- ❑ AMIR exploring Privatization Bonds concept
- ❑ Under discussion with GoJ and market players
- ❑ Benefits: early cash, & spark to bond/stock markets
- ❑ Also benefits to individual investors
- ❑ Existing examples: Morocco, Philippines, Greece

***High market interest; some technical issues***

# **Privatization Bonds**

## ***Other Issues for Immediate Consideration***

- ❑ Sufficient appropriate privatization candidates
- ❑ Near-term timing of public offers

***If either not workable, bond not viable option***

# Privatization Bonds – Candidates

## *“Appropriate” Candidates:*

- Floatable on stock exchange(s), which is function of:
  - *Strong management with history of success*
  - *Competitive technology & products*
  - *Access to markets*
  - *Proper packaging of public offer*

***In many cases, this has and will continue to require initial sale to a strategic investor***

# **Privatization Bonds – Candidates**

## ***Public Offers under Privatization Bonds:***

- ❑ Majority POs not appropriate if new investor needed
- ❑ Minority POs useful as adjunct to strategic investor sale or after strategic investor in place
- ❑ Don't sell troubled companies via stock market unless skilled turnaround management in place

***Continuing public trust is critical***



# Privatization Bonds – Candidates

## *Timing:*

- Probably should be within 1-5 years
- Goal: realization today of future receivables + other benefits

***Conversion potential is key; must be realistic & attractive to the buyers of bonds***

# Privatization Bonds – Candidates

## Possible Candidates for Privatization Bond

<u>CANDIDATE</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Jordan Phosphate Mining Co.				
Arab Potash Co.				
Postal Sector				
Electricity Sector				
Jordan Telecom				
Royal Jordanian Airlines				???
Petroleum Sector				???
Airports				???
Aqaba Ports	Unlikely			
Health & Education Services	Unlikely			
JIC Companies	Too small			

# Summary

## ***Privatization Bond Possible***

- ❑ **Sufficient candidates of sufficient size**
- ❑ **Timing more or less reasonable**

***But many other technical & strategic issues***

# Product I

- ❑ Convertible Bonds
- ❑ GoJ bonds convertible into specified shares of state-owned enterprises to be sold off by Government
- ❑ More than one issue/tranche...

# Convertibility

- ❑ Investors have the RIGHT to convert into specified shares which GoJ offers for sale during life of the bonds...
- ❑ ...but are not obligated to do so.

# Pre-Requisites

GoJ to specify:

- a. shares to be offered
- b. conversion price
- c. conversion date

# Coupon

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- ❑ Fixed
- ❑ Fixed during first 2-3 years and variable thereafter

OR

- ❑ Zero Coupon

# Benchmark

GoJ bond for equivalent tenure



# Pricing

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Lower than Benchmark

# Denominations

- ❑ For Institutional Investors  
...multiples of JD10,000
- ❑ For Individual Investors  
...multiples of JD500

# Currency

- ❑ Mostly in JD
- ❑ However, to meet regional and international demand, a US dollar portion will be considered

# Listing

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- Issues will be listed on ASE for
  - ...liquidity
  - ...visibility

# Product II

- ❑ Privatization Certificates...
- ❑ ...exchangeable for any shares which GoJ offer for sale during their tenure

# Advantages of Certificates

1. Timing and Exchange Price not pre-set
2. Certificates are exchanged at the then prevailing price of each company shares
3. GoJ can vary the Timing and Choice of Shares offered over time

## **France – Balladur Bond**

- ❑ Issued in 1993
- ❑ 4 year maturity
- ❑ Launched FFr 40 billion (\$6 billion)
- ❑ Increased to FFr 110 billion (\$17 billion) in response to strong demand

# Morocco

- ❑ Issued in 1996
- ❑ Listed on the Casablanca Stock Exchange
- ❑ Raised \$314
- ❑ Fully subscribed
- ❑ 95% bought by local investors



# Greece

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- ❑ Issued in 1998
- ❑ Certificates
- ❑ \$1 billion equivalent:
  - 50% in local currency
  - 50% in Euros

## **Greece...**

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- ❑ Government committed to reserve at least 40% of each privatization offering to certificate holders
- ❑ Certificates were issued at a discount

# Policy Issues

- ❑ ...support privatization efforts
- ❑ ...leverage privatization process to raise funds earlier

## **Policy Issues...continued**

- ❑ ...strengthen the fixed income market and augment the yield curve
- ❑ ...deepen the capital market
- ❑ ...democratize the privatization process by widening share ownership base

# **Policy Issues....continued**

- ❑ IMF / debt ceilings
- ❑ Central Bank of Jordan
- ❑ Implications for Jordan's credit rating

# Market Demand

Field visits indicate a positive reception

...new instrument

...excess liquidity

...low interest rates

# Marketing

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- ❑ Local and Foreign Portions
- ❑ Individual and Institutional Investors
- ❑ Underwriters and Placement Agents

# **Marketing...continued**

- ❑ Public Awareness Campaign

- ❑ Roadshow:

local

regional

international